Presidency note on VAT Fraud
Informal ECOFIN, April 23, 2016

Introduction: VAT Action Plan

The Commission Communication on an Action Plan on VAT "Towards a single EU VAT Area - Time to decide" was adopted on 7 April 2016. The Commission's Action Plan sets out the Commission’s views on the pathway for the modernisation and rebooting of VAT, which, with a set of urgent and mid-term measures, would lead towards a Single EU VAT Area. Those measures are built around these major cross-cutting objectives:

i) the simplification and reduction of costs for businesses (especially e-commerce and SMEs);
ii) urgent measures to tackle VAT fraud - improvements of tax administrations and administrative cooperation;
iii) medium term measures to tackle VAT fraud – definitive regime
iv) rates

On the first two objectives fast action is necessary. Part of the Action Plan deals with the taxation of cross-border supplies as the definitive regime. The Action Plan also presents the options for modernising the structure of VAT rates in the EU. These two objectives require fundamental political choices where many aspects, such as sovereignty, internal market and administrative burden, have to be considered.
The Action Plan also contains urgent measures to tackle VAT fraud. Therefore the Presidency would like to highlight that part of the Action Plan and focus on the improvement of the international exchange of information and better cooperation combined with the use of modern IT technologies.

VAT Fraud

Harmonised VAT is one of the major achievements of the EU, that contributes to operation of the single market. One of the major challenges remains the increasing amount of fraudulent activities, where significant amounts of VAT are either not paid or claimed back. Consequently, the financial impact of VAT fraud in the EU

is gigantic: the VAT gap numbers in the EU remain large (168 billion EUR) and a significant part of these amounts is the result of (cross-border) fraudulent activities.

VAT fraud detection through IT systems at EU level

Cross-border VAT fraud is frequently committed in such a manner, that a quick reaction is necessary to be able to prevent or prosecute such illegitimate activities. This is only possible by efficient co-operation between Member States' tax, customs and judicial authorities.

To achieve this an appropriate legal framework is not sufficient. The co-operating countries also need to be in possession of common technologically advanced tools to enable efficient detection of fraud, exchange of information and the launch of joint audits or tax fraud investigations. One of the possible methods could be a joint risk analysis for cross-analysing data at the level of Eurofisc.

Eurofisc involves a multilateral early warning mechanism, and the coordination of protected data exchange between tax authorities.

Which steps are needed to improve the existing system?

The Commission states that it will present a legislative proposal to enhance VAT administrative co-operation and Eurofisc in 2017. The Commission states that there is a "need to move from the existing cooperation models based on Member States exchanging information to new models of sharing and jointly analysing information and acting together".

The Commission is currently carrying out a feasibility study on the Social Network Analysis tool (SNA, also known as "Transaction Network Analysis" or TNA). This tool on the existing software and existing data exchange channels and databases (Eurofisc, VIES etc.).

Effective administrative cooperation among Member States is necessary in order to tackle VAT fraud and that

the TNA tool could be the next step to improve the VAT system.

Issues for discussion

The Presidency would like to propose the following questions for the discussion:

1. In the last years we have made huge progress in direct taxation on the automatic exchange of information between tax authorities, like the recent agreement on DAC4 in the March ECOFIN. Do you agree that we should follow the same path in the fight against VAT fraud?
2. Are you prepared – the coming months - to identify the necessary preconditions for your Member State, that have to be fulfilled and included in the proposal for you to join the use of TNA?
3. Can we make the commitment that, within a year after the launch of the TNA proposal by the Commission, we will decide at ECOFIN level to start automatic exchange of this targeted fraud information?